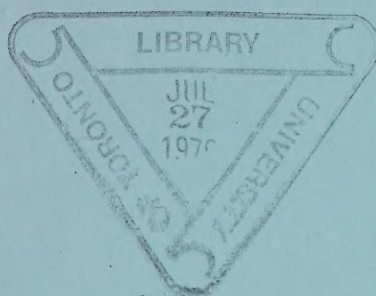


LOCAL GOVERNMENT

BULLETIN 25

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PURCHASING IN SMALL MUNICIPALITIES



Ontario Ministry of Intergovernmental Affairs

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Municipal Administration Branch
Local Government Division


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To the Municipal Clerk:

Please circulate this bulletin or make copies for distribution to councillors or staff of your municipality who may be interested in the subject. Additional copies are available at fifty cents each from the Publications Centre (see page 17).

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INTRODUCTION

This bulletin discusses various aspects of the purchasing function as it applies to small municipalities. Because your municipality has always been buying goods and services, the subject is not a new one to you. The purpose of the bulletin, then, is to encourage you to think through and assess what is already being practiced and to see if it can be done more effectively and efficiently.

The bulletin looks at purchasing in terms of who is doing it, including how the activity can be delegated in a small municipality, and what basic procedures should be followed. It talks about co-operative purchasing specifically because of the potential benefits for a small municipality. Finally, the bulletin highlights the important question of ethics in purchasing.

In examining your purchasing function against the thoughts in this bulletin, you may find certain ideas that you think should be adopted or adapted in your municipality.

THE PURCHASING PROCESS

Introduction

Most large and medium-sized municipalities practice centralized purchasing and many of them employ a full-time professional Purchasing Officer. Some medium-sized municipalities practicing centralized purchasing are of a size that the purchasing activity does not warrant a separate department. In such instances the function is sometimes headed by a person with dual responsibilities. An example would be a person who is Director of Personnel and Purchasing.

The principle of centralized purchasing holds true equally for small municipalities as it does for large ones, and the techniques can easily be implemented and practiced. The main essence of centralized purchasing is that the authority and responsibility is vested in one functional area. Purchases are made in the interests of the municipality as a whole.

For small municipalities, however, it is more practical as well as economical to adopt a semi-centralized purchasing system. This means the actual buying process is decentralized and carried out by the user departments but formal control through a purchase-order system and payment of invoices is centralized through the treasurer's or clerk-treasurer's office.

This does not mean that every user department should, for example, buy its own pencils -- there can be some centralized purchasing. What is suggested is that each department should be the purchaser of those items that it is knowledgeable about and the main user of.

For example, the treasurer's or clerk-treasurer's office should buy office supplies, stationery and paper products for all departments. Public Works should buy salt, gravel, asphalt, sign posts, sewer pipe, culvert pipe, gasoline and so on. Parks and Recreation should buy grass seed, trees, and fertilizer and other goods only used by that department.

Authority and Responsibility

The objective of the purchaser is to provide the highest quality of goods and services at the lowest price. Of course, only those goods and services for which the cost has been provided in the municipal budget can be ordered, unless otherwise approved by council.

It is usual that council establish specific financial authorizations or limits that govern the method of procurement to be followed. The amounts of these limits vary from municipality to municipality and generally depend on the wish of council and, where there is centralized purchasing, the skills and experience of the Purchasing Officer. An example of an authorization for a small municipality is as follows:

The purchaser may purchase or contract for all goods and services required by the Municipality or

(department name)

Department of the Municipality upon such terms and conditions as may be deemed advisable, subject to the following:

- (i) On purchases of up to \$100.00, without having to invite written quotations.*
- (ii) On purchases of \$100.00 or more, but not exceeding \$3,000.00, after inviting written quotations from at least three known suppliers.*
- (iii) On purchases of \$3,000.00 or more after advertising for and obtaining sealed tenders..*

Purchasing Cycle

The normal purchasing cycle begins with the requisition for goods or services and ends with payment to the supplying vendor. Between these two points certain accepted practices should be followed. The following are the basic elements involved in the cycle.

1. Purchase Requisition
2. Soliciting -
 - . informal (if less than limit) or
 - . written quotations, or
 - . tenders

3. Purchase Order Preparation and Control
4. Petty-Cash Purchases
5. Receiving-Report Preparation
6. Suppliers Invoice

Each element of the cycle will be discussed below and, where appropriate, samples of forms are shown at the end of the bulletin.

1. Purchase Requisition

This form is required where there is centralized purchasing. Its purpose is to inform purchasing formally of the need for goods or services.

In a small municipality where each department does the bulk of its own buying, the request for goods or services is usually conveyed verbally "on the job" to the Department Head, (the purchaser) and a formal requisition is seldom needed.

2. Soliciting

(a) Informal

When purchasing items of a small value that do not require formal quotations, prices can be sought from the most convenient source. Although the process is conducted informally, the purchaser still has the responsibility to seek the best possible price.

(b) Written Quotations

When written quotations are needed, the purchaser contacts the required number of suppliers and asks them to submit in writing their quotations for the particular item being purchased. Their quotations should include the price, all terms and conditions, delivery date and transportation charges.

The suppliers to be contacted can be selected from existing known suppliers, trade catalogues, telephone yellow pages or even walk-in salesmen.

Quotations can be submitted in sealed envelopes and opened individually as they are received or all at the same predetermined time. Either way, some purchasers prefer to open quotations in the presence of someone else on staff; however, this is not usually mandatory.

Under no circumstances should an order be split into two or more smaller orders to avoid written quotations. To do so goes against councils' wishes, inasmuch as they set the financial authorizations, and raises the question why a purchaser is deliberately trying to circumvent the formal quotation process.

The purchaser awards the order to the supplier that gave the best overall terms (price, all terms and conditions, delivery date and transportation charges), consistent with the required quality.

Some municipalities have a policy to "buy locally" wherever possible. In light of The Discriminatory Business Practices Act, 1978, Statutes of Ontario, Chapter 60, this may no longer be an acceptable practice. Municipalities should consult their solicitors regarding this issue.

(c) Tenders

Calling of a tender is mandatory when the value of an order for goods or services will exceed the quotation limits set by council.

Unlike invitations for written quotations, a tender has to be advertised at least once in a paper, received in sealed envelopes within the specified time and opened in public at the advertised time. In a small municipality, the standing committee concerned would in all likelihood be responsible for a tender opening, with the clerk and department head concerned also in attendance.

More information on tenders is available in a booklet published in February, 1978, by the Ministry of Transportation and Communications titled "Municipal Tendering Procedures". Copies are available to municipalities at no charge from:

Municipal Roads Office
Ministry of Transportation and
Communications
West Tower
1201 Wilson Avenue
Downsview, Ontario M3M 1J8

3. Purchase-Order Preparation and Control

The use of a purchase order is the key ingredient in purchase control. Every purchase should be covered by a purchase order, or a purchase-order number, prior to the purchase of any materials, supplies, or services.

The purchase order is a multiple-copy form that is used to authorize the vendor to supply ordered goods or services. It is usually prepared with an original and three copies. The original goes to the vendor, one goes to the treasurer's department, one is used as a receiving copy and one is kept by the originator. Although this is the usual procedure, it is emphasized that the actual number and distribution of copies can vary.

Any purchase order should contain the

- . purchase-order number
- . quantity of goods ordered
- . description of goods ordered
- . shipping instructions
- . price
- . terms of payment
- . Federal and Provincial Sales
Tax status

Purchase orders are usually a "snap out" form and should be pre-numbered to provide a reference for maintaining control over the issuance of purchase orders and for relating the purchase order to the receiving report and eventual payment of the invoice.

The purpose of a purchase-order system is to provide a means of establishing responsibility and authority for every purchase and to provide a system for the treasurer to determine the accuracy of the invoice in every respect. A purchase-order system properly used will prevent payments being made for undelivered or partially delivered goods. It also gives the treasurer and department heads a method of being aware of a commitment before the fact rather than after, when the invoice is received.

A sample purchase order is shown at the end of the bulletin as Appendix 1.

4. Petty-Cash Purchases

It is not unusual for purchases involving a small amount of money, say \$20 or less, to be purchased through petty cash without a purchase order. This procedure eliminates the writing of numerous orders of small purchases made, for example, at the local hardware store, and saves time, supplies and money. Department heads should, of course, sign and approve such petty-cash purchases.

For practical administrative purposes, a treasurer may, subject to a by-law of council, establish a petty-cash fund in each department. (The Municipal Act, section 220(4).)

5. Receiving-Report Preparation

The receiving form is simply a copy of the purchase order, with information added when the goods or services are received. (See Appendix 2.) The receiver of the goods or services checks the item and counts the quantity that he has received and completes and signs the receiving reports.

The receiving report is forwarded to the treasurer so that the invoice can be processed for payment. It is important that this be done as promptly as possible since many suppliers offer a discount if they are paid within a certain time period, usually fifteen days.

6. Supplier's Invoice

An invoice is a supplier's itemized account of goods or services provided.

An invoice should be checked upon receipt for price, extensions, taxes, matched to the receiving report and processed for payment.

To complete the process, the treasurer's department should complete the payment data (vendor invoice number, date paid, cheque number and account code) on his copy of the Purchase Order (see Appendix 3).

CO-OPERATIVE PURCHASING

Principles

Co-operative purchasing is a term given to an arrangement where two or more local authorities agree jointly to invite quotations or tenders for selected goods and services. During the past ten years co-operative purchasing has become accepted and used more frequently by local authorities. It has been used as an effective technique to reduce the costs of goods and services by dealing in larger volumes; to reduce duplication of administrative work in such areas as preparing specifications, calling tenders and testing products; and to foster intergovernmental co-operation.

As many purchasers know, however, not all co-operative purchasing arrangements produce results that are an improvement over what an individual authority might achieve. For example, a municipality may buy gravel from a small, local gravel pit at a lower price than would be achieved through a co-operative purchase from a larger supplier. When an authority is evaluating the relative advantages and disadvantages, it is important to assess the total picture of the purchase, not just the cost advantages.

Advantages

The following are some specific advantages that authorities enjoy when participating in a purchasing co-operative.

- . lower prices and/or larger discounts can be realized through combined requirements and larger volumes.
- . authorities learn collectively where to buy from and when to buy. As a group they gain market knowledge and share the benefits.
- . where appropriate and as a group they agree on common specifications to ensure a high quality at the lowest possible price.

- . where appropriate and as a group they employ quality-control techniques and monitor quality. This process might be difficult for some of the smaller authorities to do by themselves.
- . administrative work collectively amongst authorities participating in a co-operative arrangement declines because of a reduction in the number of tenders to be dealt with. For example, instead of a number of small tenders being required within an area for any one class of product, only one is needed.

Key Elements of System

A key element in a co-operative purchasing programme is the provision that each authority review the items to be tendered co-operatively and decide to participate only if it is to that authority's advantage to do so.

Another key element in the process is that no one authority has to be or, indeed, should be, responsible for all the tendering. All participants in the co-operative arrangement should take turns. Deciding who amongst the purchasers should handle a tender sometimes poses difficulties. From a practical point of view, it can be advantageous for the purchaser who is the largest user of a particular product to assume the responsibility for the tender process.

An essential element in the process is that once an authority has agreed to join in a particular tender call through the purchasing co-operative, it must remain committed to that particular tender and not back out. This commitment is very important to the process. It is important to suppliers tendering so that the quantity they are tendering on remains firm and it is important to the participants of the co-operative purchase to prevent another supplier undermining the process by offering a special deal to one authority. All participating authorities must accept the group's decision.

Implementation

Co-operative purchasing does not require a separate bureaucracy or new facility and there are no costs involved that are solely attributable to the process. In fact, once the process is running smoothly, administration costs decline due to less paper work and less duplication of activity.

In local government, many of the commodities purchased could, through co-operative purchasing, be cheaper if bought in larger quantities. Examples include fuel, gasoline, envelopes, forms, fine-paper products, salt, pipe and many other items.

In the Peterborough area a formal organization was formed called the Peterborough Public Buyers Co-operative Association. The basis of its success was the adoption by resolution, by all interested councils or governing boards, of a formal constitution that committed their Purchasing Officers to the objectives, principles and active participation in the work of the group.

There are several other examples of co-operative purchasing arrangements that are less formal but nonetheless effective and being practiced enthusiastically between and among local authorities. They include the Municipalities of Sarnia, Burlington, Huntsville and the Regional Municipalities of Halton and Niagara, as well as a number of boards, commissions, universities and colleges.

The process involved in a co-operative tender is basically the same as any other. The tender is advertised by one of the authorities participating in the co-operative purchase. The tender specifications will include the details of the various authorities involved in the tender call, their location and quantities required.

Upon a tender being awarded, each participating authority places its own purchase order with the supplier and pays its own invoice.

Participation in co-operative purchasing with neighbouring authorities can include counties or regions, boards and commissions. There is no loss of purchasing autonomy to anyone. They are merely purchasing together on any given item just as two neighbours on a street might.

ETHICS AND INTEGRITY

Ethics and Integrity.

These are two words that describe the code by which a buyer of goods and services on behalf of a municipality must operate. Ethics is the one problem area that can receive widespread publicity when it appears to be violated.

One important difference between public and private purchasing is the lack of secrecy in public purchasing. Specifications, bids, purchase orders and other purchasing documents are matters of public record for all interested persons to see. On the other hand, if private-sector management chooses not to divulge who gets what orders and at what price, it does not have to.

Whether the buying operation is that of a large municipality or for a small rural village there is a common element present - PUBLIC FUNDS ARE BEING SPENT.

It is not enough that a purchaser operate within the legal requirements of his job; it must be obvious to the public at large and suppliers that he is acting honestly, fairly and impartially. There must be no hint of conflict of interest in his dealings.

In practical terms in public-sector purchasing, the following are some of the pitfalls that must be avoided.

- . Suppliers' prices for goods and services must not be "peddled". Prices may be divulged after the awarding of an order but not beforehand.
- . If suppliers offer gifts, they must not be accepted. This includes such offerings as a "bottle" at Christmas or the free use of a cottage or lavish entertainment.

- . As far as practical, business should be avoided with someone who is a relative. Sometimes this is almost unavoidable, particularly in smaller municipalities where there are limited sources. If, under those circumstances, the purchaser buys goods or services from someone who is a relative, then it is important that the purchaser disclose the conflict of interest to council. If a councillor or a relative of a councillor has an interest in the ownership of the business supplying the goods or services then the councillor has to disclose the conflict of interest.¹
- . Having lunches bought for purchasers by suppliers is a difficult area. If such luncheons are for the purpose of discussing business generally, then it may be condoned particularly if the municipality takes its turn in paying the bill.
- . If municipalities allow their purchaser(s) to accept nominal gifts, the guideline should be that they are products that can be used in connection with an employee's job and given for product testing or advertising purposes. Examples might be pens, calendars, appointment books.

To summarize, a person buying goods and services must maintain a position of being able to be impartial when conducting business with suppliers, and not be placed in a position of owing someone a favour. Only by conducting himself in an ethical manner can a purchaser get ultimate value for each dollar of expenditure.

¹See Bulletin #2 in this series: Conflict of Interest in Municipal Government

P U R C H A S E O R D E RP.O. # A 0100

The Municipality of _____

(Address)

Supplier _____

Ship to _____

(Department)

Address _____

(Address)

Date of Order _____

Date Required _____

Terms _____ Federal Sales Tax _____ Provincial Sales Tax _____

QuantityDescriptionUnit PriceTotalINVOICES, IN DUPLICATE, MUST BE MAILED TO THE TREASURER

Municipality of _____

Department _____

Authorized Signature _____

ORIGINAL (to supplier)

TREASURER'S COPY

RECEIVING COPY

ORIGINATORS COPY

PURCHASE ORDERP.O. # A 0100

The Municipality of _____

(Address)

Supplier _____

Ship to _____

(Department)

Address _____

(Address)

Date of Order _____

Date Required _____

Terms _____ Federal Sales Tax _____ Provincial Sales Tax _____

QuantityDescriptionUnit PriceTotal

INVOICES, IN DUPLICATE, MUST BE MAILED TO THE TREASURER

Indicate items received by V: not received by O

Received	Partial	Complete	Packing Slip No.

Remarks on condition _____

Goods checked, counted and inspected.

Receiver's Signature _____

Municipality of _____

Department _____

Authorized Signature _____

RECEIVING COPY

P U R C H A S E O R D E RP.O. # A 0100

The Municipality of _____

(Address)

Supplier _____

Ship to _____

(Department)

Address _____

(Address)

Date of Order _____

Date Required _____

Terms _____ Federal Sales Tax _____ Provincial Sales Tax _____

QuantityDescriptionUnit PriceTotalINVOICES, IN DUPLICATE, MUST BE MAILED TO THE TREASURER

Vendor Invoice No. _____

Date Paid _____

Cheque No. _____

Municipality of _____

Department _____

Authorized Signature _____

TREASURER'S COPY

This bulletin was prepared in the:

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 Toronto, Ontario
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| 2 Conflict of Interest in Municipal Government | 14 The Head of Council |
| 3 Amendments to The Municipal Elections Act, 1977 | 15 An Act to Amend The Municipal Act (Bill 80) Remuneration and Expenses |
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- F.1 Cash Management in Municipalities
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Prices subject to change without notice.

For additional information on this subject, get in touch with any of the field officers of the Local Government Division. They are located at these addresses:

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